

**Financial Statements**  
**Ionia County Community**  
**Mental Health**  
**September 30, 2004**



# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Ionian County Community Mental Health</b>	County <b>Ionian</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>11/24/04</b>	Date Accountant Report Submitted to State: <b>3/22/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <b>Roslund, Prestage &amp; Company, P.C.</b>			
Street Address <b>308 Gratiot Avenue</b>		City <b>Alma</b>	State <b>MI</b>
Accountant Signature <i>Roslund, Prestage &amp; Company P.C.</i>		ZIP <b>48801</b>	Date <b>3/22/05</b>

Ionia County Community Mental Health  
Table of Contents  
September 30, 2004

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<b>Independent Auditor's Report</b>	
<b>Management's Discussion and Analysis</b>	I-VI
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5-6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Statement of Net Assets – Proprietary Funds	8
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	9
Statement of Cash Flows – Proprietary Funds	10
Notes to the Financial Statements	11-26
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedules	27-28
<b>Other Supplemental Information</b>	
Individual Fund Statements	
Statement of Personnel Expenditures	29
Statement of Operating Expenditures	30
<b>Government Auditing Standards Report</b>	31-32



## INDEPENDENT AUDITOR'S REPORT

Ionia County Community Mental Health  
Orleans, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ionia County Community Mental Health (the Authority) as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 24, 2004, on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-VI, and budgetary comparison information on pages 27-28, are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 24, 2004

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

# ***Ionia County Community Mental Health Services***

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

The management of Ionia County Community Mental Health Services (ICCMH) presents the following discussion and analysis of the financial activities during the fiscal year 2003/2004. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which had to consist of 20,000 or more Medicaid covered lives. ICCMH, which was created as a Mental Health Authority on September 17, 1996 by action of the Ionia County Board of Commissioners, has entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Gratiot County Community Mental Health, Manistee Benzie Community Mental Health, and Newaygo County Community Mental Health. This affiliation is called the Community Mental Health Affiliation of Mid-Michigan.

Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the 8 county region. Clinton Eaton Ingham Community Mental Health has sub-contracted with ICCMH to provide Medicaid covered services for the county of Ionia for the current fiscal year. ICCMH has approximately 7200 total Medicaid covered lives. The affiliation formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Ionia County Community Mental Health also holds a Managed Mental Health Supports and Services Contract with the Michigan Department of Community Health for general funds.

### **OVERVIEW OF FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

**Authority-wide financial statements** include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

# ***Ionia County Community Mental Health Services***

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

**Fund financial statements** contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements.

The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Fund financial statements report information using the modified accrual basis of accounting. For ICCMH, the major funds consist of the general fund and the proprietary fund.

Governmental fund financial statements identify how day-to-day community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements identify funds set aside in our Internal Service Fund for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.



# ***Ionia County Community Mental Health Services***

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

### **Summary of Net Assets**

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2004 and 2003.

<b>Summary of Net Assets</b>		
As of September 30, 2004 and 2003		
(In dollars)		
	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current Assets	2,648,935	2,945,324
Restricted Assets	263,295	260,982
Capital Assets	<u>356,126</u>	<u>382,047</u>
Total Assets	3,268,356	3,588,353
<b>Liabilities</b>		
Current Liabilities	2,113,413	2,144,964
Noncurrent Liabilities – LT Debt	207,730	195,205
Noncurrent Liabilities – Comp. Absences	<u>178,907</u>	<u>172,340</u>
Total Liabilities	2,500,050	2,512,509
<b>Net Assets</b>		
Investment in capital assets	114,196	168,408
Restricted for capital purposes	-	377,775
Restricted for risk management	84,388	82,926
Unrestricted	<u>588,350</u>	<u>446,735</u>
Total Net Assets	768,306	1,075,844

**Current financial position** is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$536 thousand, a decrease of \$264 thousand or 33%, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

# ***Ionia County Community Mental Health Services***

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

Also at year-end, \$342 thousand of state general fund formula funding was unspent. Of this amount \$266 thousand is included in current liabilities as amounts due to the state as lapse and the remaining \$76 thousand as deferred revenue to be carried forward to next year.

**Restricted assets** consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$263 thousand have increased by \$2 thousand or 1%.

Assets restricted for capital purposes (funded depreciation) are enabled by the Michigan Mental Health Code and are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2004, the Authority fully funded its annual depreciation expense of \$75 thousand.

The remaining assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract still maintained directly with the state. At year-end, the balance in this account was \$84 thousand and is funded to 5.0%, as compared to its contractual maximum annual risk exposure of 7.5% of the funds at risk.

**Capital assets** consist of property and equipment having an estimated useful life of more than one year. These assets are included on the statement of net assets at their original book value and restated to be net of the accumulated depreciation. As of the beginning of fiscal 2004, capital assets having an original book value of \$955 thousand were recorded, net of restated accumulated depreciation of \$598 thousand, for a beginning net book value of \$357 thousand.

In fiscal 2004, \$105 thousand was expended for equipment. Depreciation expense on previously existing and newly acquired capital assets was \$75 thousand. The net change in capital assets was a decrease of \$54 thousand for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources. Conversely, a net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 37% of the original book value compared to 39% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

**Noncurrent liabilities** consist of the liability for compensated absences that includes vested vacation and sick pay obligations as well as the long-term portion of notes payable used to acquire and improve buildings.

# ***Ionia County Community Mental Health Services***

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

**Restricted net assets** include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

**Unrestricted net assets** at the end of the year were \$588 thousand, an increase of \$142 thousand. Unrestricted net assets were 18% of total assets, up from 12% from the prior year.

### **SUMMARY OF ACTIVITIES**

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2004 and 2003.

#### **Summary of Activities**

As of September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>Revenue</b>		
Medicaid specialty supports and services	6,630,119	6,207,247
State general fund priority populations	1,557,422	1,570,688
Program service revenue	235,041	226,902
Grants and earned contracts	409,968	416,009
County appropriation	163,000	163,000
Interest income	54,635	58,505
Other local income	<u>11,367</u>	<u>15,663</u>
Total Revenue	9,061,552	8,658,014
<b>Expense</b>		
Personnel expense	4,224,324	4,155,281
Operating expense	4,748,482	4,683,899
Interest expense	<u>15,888</u>	<u>16,571</u>
Total Expense	8,988,694	8,855,751
<b>Excess of Revenue over Expense</b>	<b>72,858</b>	<b>(197,737)</b>
Transfer to PIHP	<u>(377,775)</u>	<u>(297,870)</u>
<b>Change in Net Assets</b>	<b>(304,917)</b>	<b>(495,607)</b>

# ***Ionia County Community Mental Health Services***

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

**Excess of revenue over expenses** from activities for the current year was \$82 thousand or about 1% of revenue. This is an increase of \$205 thousand from the prior year deficit of \$123 thousand.

**Revenue** for the year was \$9.0 million, an increase of \$400 thousand or 5% from the prior year.

**Medicaid specialty supports and services revenue** of \$6.6 million represents 73% of total revenue and increased \$423 thousand or 6.8% compared to the prior year. Unspent Medicaid subcontract funds of \$1 million are not revenue and are shown as amounts due to the PIHP.

**State general fund priority population revenue** (formula funding) of 1.6 million represents 17.2% of total revenue and decreased \$13 thousand or 0.8% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year revenue includes \$78 thousand of prior year deferred revenue. Unspent current year funds of \$342 thousand are not included in current revenue. Of this amount \$266 thousand is shown as a current liability due to be lapsed to MDCH and the remaining \$76 thousand is shown as deferred revenue available for next year.

**Program service revenue** of \$235 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 2.6% of total revenue and have increased \$8 thousand or 3.5% from the prior year.

**Grants and earned contract revenue** includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 4.5% of total revenue and have decreased \$6 thousand or 1.5% over the prior year.

**County appropriation revenue**, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 2.5% of revenue and have decreased \$4 thousand or 1.7% from the prior year. The county appropriation was unchanged.

**Total expense** of \$8.9 million has increased \$202 thousand or 2.3% compared to the prior year. Personnel expense is 47.5% of total expense and has increased \$112 thousand or 2.7 1%. Operating expense is 50% of total expense and has increased \$12 thousand or less than 1%.

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$2,260,143	\$2,719,248
Accounts receivable, net	211,311	48,973
Due from other governmental units	101,685	136,190
Prepaid expenses	75,796	40,913
Total current assets	2,648,935	2,945,324
Noncurrent assets		
Cash and cash equivalents - restricted	263,295	260,982
Capital assets - depreciable, net	356,126	382,047
Total noncurrent assets	619,421	643,029
Total assets	3,268,356	3,588,353
<b>Liabilities</b>		
Current liabilities		
Accounts payable	488,733	358,030
Due to other governmental units	1,345,040	1,515,422
Due to others	14,003	24,882
Deferred revenue	118,537	122,594
Accrued wages and other payroll liabilities	112,900	105,602
Current portion of long-term liabilities	34,200	18,434
Noncurrent liabilities		
Long-term liabilities	207,730	195,205
Compensated absences	178,907	172,340
Total liabilities	2,500,050	2,512,509
<b>Net Assets</b>		
Invested in capital assets, net of related debt	114,196	168,408
Reserved for medicaid savings	-	377,775
Reserved for risk management	84,388	82,926
Unrestricted	569,722	446,735
Total net assets	\$768,306	\$1,075,844

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2003
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$9,366,469</u>	<u>\$6,809,768</u>	<u>\$2,197,149</u>	(\$359,552)	(\$554,112)
General revenues					
Unrestricted investment earnings				53,173	52,411
Restricted investment earnings				<u>1,462</u>	<u>6,094</u>
Total general revenues and contributions				<u>54,635</u>	<u>58,505</u>
Change in net assets				(304,917)	(495,607)
Net assets - beginning of year				1,075,844	1,571,451
Prior Period Adjustment				<u>(2,621)</u>	<u>-</u>
Net assets - end of year				<u>\$768,306</u>	<u>\$1,075,844</u>

The notes to the financial statements are an integral part of this statement.

## **FUND FINANCIAL STATEMENTS**



IONIA COUNTY COMMUNITY MENTAL HEALTH  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
<b>Assets</b>		
Cash And Investments	\$2,260,143	\$2,719,248
Accounts Receivable, Net	211,311	48,973
Due From Other Governmental Units	101,685	136,190
Prepaid Expenses	75,796	40,913
Cash and investments - restricted	178,907	178,056
<b>Total Assets</b>	<b>\$2,827,842</b>	<b>\$3,123,380</b>
<b>Liabilities</b>		
Accounts Payable	\$488,733	\$358,030
Due To Other Governmental Units	1,345,040	1,515,422
Due To Others	14,003	24,882
Deferred Revenue	118,537	122,594
Accrued Wages & Other Payroll Liabilities	112,900	105,602
<b>Total Liabilities</b>	<b>2,079,213</b>	<b>2,126,530</b>
<b>Fund Balance</b>		
Reserved For Prepaid Expenses	75,796	40,913
Reserved For Medicaid Savings	-	377,775
Unreserved	672,833	578,162
<b>Total fund balances</b>	<b>748,629</b>	<b>996,850</b>
<b>Total Liabilities and fund balances</b>	<b>\$2,827,842</b>	<b>\$3,123,380</b>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH  
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET  
FOR GOVERNMENTAL FUNDS  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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Total fund balance - governmental funds

\$748,629

Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Add: Capital assets

954,587

Deduct: Accumulated depreciation

(598,461)

An internal service fund is used by management to cover the risk of  
overspending the Managed Care Specialty Services Program contract.

The assets and liabilities of the internal service fund are included in  
governmental activities in the statement of net assets.

Add: Net assets of governmental activities accounted  
for in the internal service fund

84,388

Long-term liabilities, including bonds payable, are not due and payable in the  
current period and, therefore, are not reported as liabilities in the funds. Long-term  
liabilities at year end consist of:

Deduct: Loans payable

(241,930)

Deduct: Compensated absences

(178,907)

Net assets of governmental activities

\$768,306

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
<b>REVENUES</b>		
State Grants		
DCH - General Fund Formula And Categorical	\$1,347,827	\$1,570,688
Adult Benefit Waiver	209,595	-
PAS / ARR Grant	9,375	10,748
DCH Grant - FCT	-	7,230
DCH Grant - Housing Assistance	4,979	9,984
MI Child	11,044	10,419
Total State Grants	<u>1,582,820</u>	<u>1,609,069</u>
Federal Grants		
Wraparound Grant	85,152	87,461
Juvenile Justice Diversion	43,715	52,816
Substance Abuse	19,210	6,406
DCH Grant - Natural Supports	37,956	43,786
DCH Grant - Jail Diversion	69,574	36,530
Strong Families/Safe Children	15,598	19,810
PAS / ARR Grant	28,124	32,244
Respite	3,090	-
Drop In Center	6,009	-
Total Federal Grants	<u>308,428</u>	<u>279,053</u>
Contributions - Local Units		
County Funding	163,000	163,000
Total Contributions - Local Units	<u>163,000</u>	<u>163,000</u>
Charges For Services		
Medicaid - Other	40,435	37,471
Medicaid - DCH Contract	6,630,119	6,207,247
Client And Third Party Pay	139,214	189,431
Total Charges For Services	<u>6,809,768</u>	<u>6,434,149</u>
Interest And Rents		
Interest	53,173	52,411
Total Interest And Rents	<u>53,173</u>	<u>52,411</u>
Other Revenue		
Contributions	4,312	2,168
Earned Contracts	93,195	98,575
Miscellaneous	45,394	13,495
Total Other Revenue	<u>142,901</u>	<u>114,238</u>
Total Revenues	<u>9,060,090</u>	<u>8,651,920</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
<b>EXPENDITURES</b>		
Health & Welfare - Mental Health		
Personnel Costs	\$4,267,125	\$4,155,281
Operating Expenditures	4,623,050	4,585,507
Capital Outlay	50,130	-
Debt Payments - Principal	21,852	17,807
Debt Payments - Interest	15,888	16,571
Total Expenditures	<u>8,978,045</u>	<u>8,775,166</u>
Excess Of Revenues Over (Under ) Expenditures	82,045	(123,246)
Other Financing Sources (Uses)		
Operating Transfers Out - To Affiliates	(377,775)	-
Proceeds From Loans	50,130	-
Total Other Financing Sources (Uses)	<u>(327,645)</u>	<u>-</u>
Excess Of Revenues And Other Sources Over (Under ) Expenditures and Other Uses	(245,600)	(123,246)
Fund Balance - Beginning Of Year	996,850	966,460
Prior Period Adjustment	<u>(2,621)</u>	<u>153,636</u>
Fund Balance - End Of Year	<u><u>\$748,629</u></u>	<u><u>\$996,850</u></u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Net change in fund balances - total governmental funds	(\$245,600)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures and the proceeds from loans to finance capital purchases as revenue. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense and the loan proceeds are recorded as a liability.	
Add: Capital outlay	50,130
Deduct: Depreciation expense	(75,302)
Deduct: Loan proceeds	(50,130)
Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	
Add: Principal paid on bonds	21,852
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: Increase in accrual for compensated absences	(6,567)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: Interest income from governmental internal service fund	1,462
Net effect of various miscellaneous transactions	(762)
Change in net assets of governmental activities	<u>(\$304,917)</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2004 AND 2003

		Internal Service Fund	
		2004	2003
<b>Assets</b>			
Cash and cash equivalents		<u>\$84,388</u>	<u>\$82,926</u>
<b>Net Assets</b>			
Restricted		<u>\$84,388</u>	<u>\$82,926</u>
<b>Total Liabilities And Net Assets</b>		<u>\$84,388</u>	<u>\$82,926</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
<b>Non-Operating Revenue</b>		
Interest Income	\$1,462	\$6,094
<b>Operating Transfers</b>		
Transfers Out To Other Governmental Units	-	(297,870)
Change In Net Assets	1,462	(291,776)
Net Assets, Beginning of Year	82,926	374,702
Net Assets, End of Year	<u>\$84,388</u>	<u>\$82,926</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Cash flows from capital and related financing activities		
Transfer out to other governmental units	-	(\$297,870)
Cash flows from investing activities		
Interest revenue	\$1,462	6,094
Net increase (decrease) in cash and cash equivalents	1,462	(291,776)
Cash and cash equivalents - beginning of year	82,926	374,702
Cash and cash equivalents - end of year	<u>\$84,388</u>	<u>\$82,926</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	-	-

The notes to the financial statements are an integral part of this statement.



**NOTES TO THE FINANCIAL STATEMENTS**

Ionia County Community Mental Health  
Notes To The Financial Statements

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Ionia County Community Mental Health (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2002.

### A. Reporting Entity

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Ionia who meet eligibility and other criteria. As the community mental health services provider for Ionia County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Ionia County Community Mental Health  
Notes To The Financial Statements

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**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Ionia County Community Mental Health  
Notes To The Financial Statements

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An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Ionia County Community Mental Health  
Notes To The Financial Statements

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**Proprietary Funds**

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**D. Budgetary Data**

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**E. Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority.

**F. Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Ionia County Community Mental Health  
Notes To The Financial Statements

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**G. Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

**H. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**I. Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**J. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Ionia County Community Mental Health  
Notes To The Financial Statements

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Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	5
Computers	5
Vehicles	4
Buildings and Improvements	10-30
Land	Not Depreciated

**K. Restricted Assets**

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

**L. Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings, compensated absences and post-employment benefits are examples of the latter.

**M. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**N. Inpatient / Residential Cost Liability**

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility. The Authority is not billed for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

Ionia County Community Mental Health  
Notes To The Financial Statements

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**O. Deferred Revenue**

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

**P. Grants**

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

**Q. Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**B. Excess Of Expenditures Over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, the Authority incurred expenditures in excess of the amounts appropriated as shown on the schedule in the back of this report as unfavorable variances.



Ionia County Community Mental Health  
Notes To The Financial Statements

### 3. DETAIL NOTES ON ALL FUNDS

#### A. Cash And Investments

At September 30<sup>th</sup> the carrying amount of the Authority's cash and cash investments are as follows:

Cash & Investments	2004	2003
Petty Cash	\$770	\$770
Checking, Money Market, & Liquid Asset Accounts	1,264,498	726,174
Certificates Of Deposit	986,558	1,992,304
Cert. Of Deposit – Restricted, ISF Fund	84,388	82,926
Cert. Of Deposit – Restricted For Comp. Absences	178,907	172,340
Cash – Restricted for Employee's Flexible Benefits	8,317	5,716
Totals	\$2,523,438	\$2,980,230

At year-end, the carrying amount of the Authority's cash deposits was \$2,522,668 and the bank balance was \$2,531,545. Of the bank balance, \$200,000 was covered by federal depository insurance and the remaining balance was uninsured and uncollateralized. The restricted funds are funds limited to payment of employee's flexible benefits, compensated absences.

The investments consist of certificates of deposit that mature 12 months or less from the date of acquisition and is held at a local bank. The carrying amount approximates the fair market value.

#### Restricted Investments

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30<sup>th</sup>. The Authority holds, in a separate bank account, funds equal to or greater than the compensated absences liability. The use of these funds is restricted to payment of compensated absences as they come due.

Cash and Investments in the Internal Service Fund have been restricted in the amount of \$84,388 for the expected future risk corridor requirements of the MCSSP contract. See additional note below.

#### B. Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Ionia County Community Mental Health  
Notes To The Financial Statements

**C. Due From Other Governmental Units**

Due from other governmental units as of September 30<sup>th</sup> consists of the following:

<b>Due From:</b>	<b>2004</b>	<b>2003</b>
State of Michigan – DCH, Natural Supports Program	-	\$33,772
State of Michigan – DCH, Wraparound	\$21,581	16,937
State of Michigan – DCH, Jail Diversion	18,050	18,257
State of Michigan – FIA, SF/SC	1,259	3,220
State of Michigan – DCH, Housing Assistance	2,455	3,520
State of Michigan – Juvenile Justice	10,976	9,979
State of Michigan – OBRA	10,999	9,707
State of Michigan – FIA, CPCP Bridges	2,087	2,468
Juvenile Court	5,938	5,797
Mid-South – Substance Abuse	3,956	1,788
Other	24,384	30,745
<b>Total</b>	<b>\$101,685</b>	<b>\$136,190</b>

**D. Prepaids**

Prepaid expenses represent payments for the following expenses that will benefit future periods:

<b>Prepaid</b>	<b>2004</b>	<b>2003</b>
Insurance	\$56,791	\$19,666
Dues & Conferences	9,095	8,999
Building Rent	6,384	9,047
Maintenance Fees	3,526	1,395
Other	-	1,806
<b>Total</b>	<b>\$75,796</b>	<b>\$40,913</b>

Ionia County Community Mental Health  
Notes To The Financial Statements

**E. Capital Assets**

Depreciable capital asset activity for the year ended September 30, 2004 was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Vehicles	\$354,247	\$50,131	(\$74,650)	\$329,728
Furniture, Fixtures & Equip.	75,038	-	-	75,038
Computers	228,081	-	-	228,081
Buildings	272,120	-	-	272,120
Land	49,620	-	-	49,620
Sub-total	979,106	50,131	(74,650)	954,587
Accumulated Depreciation	(597,059)	(75,302)	73,900	(598,461)
Totals	\$382,047	(\$25,171)	(\$750)	\$356,126

Depreciation expense in the amount of \$75,302 was charged to Health and Welfare – Mental Health Program.

**F. Due To Others**

Due to others represents funds held on behalf of consumers in the amount of \$5,685 and flex benefits held on behalf of employees in the amount of \$8,318.

**G. Deferred Revenue**

The amount reported as deferred revenue represents the 5% carry forward allowance for the general fund portion of the Department of Community Health's authorization as well as other revenues received in advance of the period earned as follows:

<b>Deferred Revenue</b>	<b>2004</b>	<b>2003</b>
County Appropriation	\$40,750	\$40,750
General Fund Carry Forward	76,519	78,344
Self-Advocacy Training Program	1,268	3,500
Total	\$118,537	\$122,594

Ionia County Community Mental Health  
Notes To The Financial Statements

#### H. Due To Other Governmental Units

Due to other governmental units as of September 30<sup>th</sup> consist of the following:

Due To:	2004	2003
Clinton-Eaton-Ingham CMH – Medicaid Cost Settlement	\$1,013,432	\$1,348,259
State of Michigan – Cost Settlement – 9/04	265,907	115,503
Various Facilities – Inpatient / Residential	65,701	51,660
Totals	\$1,345,040	\$1,515,422

#### I. Accrued Wages And Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

#### J. Operating Leases

Ionia County Community Mental Health has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements.

#### K. Long-term Debt

##### Compensated Absences

The Authority's full time employees shall accrue paid time off biweekly, based on the number of years of employment. The maximum number of hours an employee may accrue is 27 day (216 hours) for employment of 0 to 6 years; and 33 days (264 hours) for employment over 6 years. Paid time off may be accumulated to a maximum of 240 hours. Upon retirement, termination for other than just cause, or death, the employee who has completed their initial introductory period will be paid for the unused credited paid time off at their current rate of pay.

##### Notes Payable

The Authority entered into three promissory notes totaling \$321,740 to finance the purchase and renovations of three separate buildings. The Authority entered into a promissory note totaling \$50,130 to finance the purchase of three vehicles. The terms of the promissory notes are detailed in the following chart.

Description Of Loan	Date of Loan	Length of Loan	Original Balance	Monthly Payment	Interest Rate
State St. & Renovation	7/25/97	180 mo.	\$102,540	\$913.08	6.75%
Water Street	2/12/98	180 mo.	108,800	968.77	6.75%
Prairie Creek	2/12/98	180 mo.	110,400	983.01	6.75%
Vehicle Loans	6/15/04	48 mo.	50,130	1,116	3.25%

Ionia County Community Mental Health  
Notes To The Financial Statements

The changes in the long-term debt are as follows:

Description of Debt	Beg. Bal. 10/01/03	Additions	Reductions	End. Bal. 9/30/04
State Street And Renovation	\$63,643	-	\$6,590	\$57,053
Water Street	83,418	-	6,112	77,306
Prairie Creek	66,578	-	6,201	60,377
Vehicle Loans	-0-	\$50,130	2,949	47,181
<b>Totals</b>	<b>\$213,639</b>	<b>\$50,130</b>	<b>\$21,852</b>	<b>\$241,917</b>

The annual payment of principle and interest for the next five years (including interest of \$50,330) is as follows:

Year Ended September 30 <sup>th</sup> ,	Principle and Interest Due
2005	\$47,772
2006	47,772
2007	47,772
2008	44,424
2009	34,378
2010 – 2014	70,129

#### L. Net Assets

##### Reserves

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues

#### 4. OTHER INFORMATION

##### A. Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

##### B. Fund Balance Reserves

In the fund level financial statements a portion of the fund balance at September 30<sup>th</sup> has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

**C. Money Purchase Pension Plan**

On January 1, 2002 the Authority established the Ionia County CMH Money Purchase Pension Plan. The employees are eligible after completing one year of service and have attained the age of 21. Employees of the Authority on January 1, 2002 are eligible immediately. Each year the Authority will contribute 6% of each employee's compensation to the plan with a maximum of \$40,000 or 100% of annual compensation. Employees will be fully vested after 6 years of service.

Additional information regarding this plan can be obtained by writing the plan administrator at: Ionia County Community Mental Health Board, 375 Apple Tree Drive, Ionia, Michigan 48846.

**D. Deferred Compensation Plan**

Employees of the Authority may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect To Service For State And Local Governments).

The deferred compensation plan is available to all full time employees. Under the plan, employees may elect to defer a portion of their salaries and defer paying income taxes on the deferred portion until the withdrawal date.

Under the terms of an Internal Revenue Code Section 457 Plan, all deferred compensation and income attributable to the investment of the deferred compensation, until paid or made available to the employees or beneficiaries, are the property of the Authority subject only to the claims of the Authority's general creditors.

The Authority entered into an administrative agreement with NACoServices, Inc., a subsidiary of the National Association of Counties, and Public Employees Benefit Services Corporation, hereinafter referred to as Nationwide, to endorse and sponsor the plan. Nationwide has been selected to fulfill the responsibility for all administrative requirements necessary for the successful operation of the program.

Additional information regarding this plan can be obtained by writing the plan administrator at: Ionia County Community Mental Health Board, 375 Apple Tree Drive, Ionia, Michigan 48846.

Ionia County Community Mental Health  
Notes To The Financial Statements

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**E. Risk Management**

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the Authority resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$5,000,000 for liability, \$1,500,000 for vehicle physical damage, and approximately \$1,900,000 for buildings and personal property. The contribution made by the Authority to the MMRMA was \$30,878 for the period July 1, 2003 to June 30, 2004.

**F. Prior Period Adjustment**

Prior period adjustments shown in the fund level financial statements in this report represents the adjustment to fund balance due to the following:

Adjustment	2004	2003
Removal of compensated absences liability	-	\$172,340
Write-off of old uncollectible receivable – Child Model Waiver	-	(15,072)
Other	(\$2,621)	(3,632)
Total Increase (Decrease) To Fund Balance	(\$2,621)	\$153,636

Ionia County Community Mental Health  
Notes To The Financial Statements

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**G. Contingency**

During the year ended September 30, 2003 the Department of Community Health completed an audit of the Authority for fiscal years ending September 30, 1999 and 2000. As a result of that audit, management was verbally informed of numerous audit issues and, consequently, the Department of Community Health is requesting an unknown amount to be returned to them from the Authority.

The resolutions of these audit issues could have a material impact on the financial statements.

These financial statements do not reflect any contingent liabilities relating to these audit findings.



Ionia County Community Mental Health  
Notes To The Financial Statements

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**REQUIRED SUPPLEMENTAL INFORMATION**

BUDGETARY COMPARISON SCHEDULE

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDING SEPTEMBER 30, 2004

	Budgeted Amounts			Variances Between Actual and Final Budget
	Original	Final	Actual	
<b>REVENUES</b>				
State Grants				
DCH - General Fund Formula And Categorical	\$1,710,448	\$1,500,000	\$1,557,422	\$57,422
PAS / ARR Grant	7,500	7,500	9,375	1,875
DCH Grant - Housing Assistance	7,000	7,000	4,979	(2,021)
MI Child	10,500	10,500	11,044	544
Total State Grants	<u>1,735,448</u>	<u>1,525,000</u>	<u>1,582,820</u>	<u>57,820</u>
Federal Grants				
Wraparound Grant	87,461	87,461	85,152	(2,309)
Juvenile Justice Diversion	45,000	45,000	43,715	(1,285)
Substance Abuse	12,000	12,000	19,210	7,210
DCH Grant - Natural Supports	52,000	52,000	37,956	(14,044)
DCH Grant - Jail Diversion	72,000	72,000	69,574	(2,426)
Strong Families/Safe Children	15,600	15,600	15,598	(2)
PAS / ARR Grant	22,500	22,500	28,124	5,624
Respite	3,090	3,090	3,090	-
Drop In Center	7,700	7,700	6,009	(1,691)
Total Federal Grants	<u>317,351</u>	<u>317,351</u>	<u>308,428</u>	<u>(8,923)</u>
Contributions - Local Units				
County Appropriations	163,000	163,000	163,000	-
Total Contributions - Local Units	<u>163,000</u>	<u>163,000</u>	<u>163,000</u>	<u>-</u>
Charges For Services				
Medicaid - Other	22,000	22,000	40,435	18,435
Medicaid - DCH Contract	7,896,000	6,666,549	6,630,119	(36,430)
Client And Third Party Pay	175,100	175,100	139,214	(35,886)
Total Charges For Services	<u>8,093,100</u>	<u>6,863,649</u>	<u>6,809,768</u>	<u>(53,881)</u>
Interest And Rents				
Interest	55,000	55,000	53,173	(1,827)
Total Interest And Rents	<u>55,000</u>	<u>55,000</u>	<u>53,173</u>	<u>(1,827)</u>
Other Revenue				
Contributions	4,000	4,000	4,312	312
Earned Contracts	79,000	79,000	93,195	14,195
Miscellaneous	7,800	7,800	45,394	37,594
Total Other Revenue	<u>90,800</u>	<u>90,800</u>	<u>142,901</u>	<u>52,101</u>
Total Revenues	10,454,699	9,014,800	9,060,090	45,290

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)  
FOR THE YEAR ENDING SEPTEMBER 30, 2004

EXPENDITURES	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
Health & Welfare - Mental Health	\$10,408,249	\$8,975,800	\$8,890,175	\$85,625
Capital Outlay	-	-	50,130	(50,130)
Debt Service	34,450	17,000	37,740	(20,740)
Total Expenditures	10,442,699	8,992,800	8,978,045	14,755
Excess Of Revenues Over (Under) Expenditures	12,000	22,000	82,045	60,045
Other Financing Sources (Uses)				
Operating Transfers Out - To Affiliates	(12,000)	(22,000)	(377,775)	(355,775)
Proceeds From Loans	-	-	50,130	50,130
Total Other Financing Sources (Uses)	(12,000)	(22,000)	(327,645)	(305,645)
Excess Of Revenues And Other Sources Over (Under ) Expenditures and Other Uses	-	-	(245,600)	(245,600)
Fund Balance, October 1	996,850	996,850	996,850	-
Prior Period Adjustment	-	-	(2,621)	(2,631)
Fund Balance, September 30	<u>\$996,850</u>	<u>\$996,850</u>	<u>\$748,629</u>	<u>(\$248,231)</u>

The notes to the financial statements are an integral part of this statement.

**OTHER SUPPLEMENTAL INFORMATION**

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF PERSONNEL EXPENDITURES  
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

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	Governmental Fund Types	
	General Fund	
	2004	2003
<b>Personnel Costs</b>		
Salaries And Wages	\$3,282,182	\$3,222,178
Fringe Benefits	984,943	933,103
Total Personnel Costs	<u>\$4,267,125</u>	<u>\$4,155,281</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH  
STATEMENT OF OPERATING EXPENDITURES  
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

	Governmental Fund Types	
	General Fund	
	2004	2003
<b>Operating Expenditures</b>		
Advertising	\$11,547	\$4,012
Board Per Diem	14,030	13,590
Books and Publications	5,864	8,750
Contracted Services	2,071,114	1,972,802
Consumer Per Diem	4,270	4,200
Capital Outlay - Under \$5,000	104,887	79,741
Dues	9,045	8,180
Electricity	23,706	20,524
Family Flex Funds	4,272	8,626
Heat	20,288	13,114
Housing Assistance	6,985	11,597
Insurance And Bonds	85,190	51,093
Inpatient	535,377	553,968
Meeting Expense	10,122	5,583
Miscellaneous	2,556	2,750
Postage	9,339	10,959
Prescriptions	26	307
Property Taxes	9,353	9,923
Professional Fees	38,382	61,443
Rent - Building	103,229	103,694
Rent - Equipment	10,027	4,479
Repairs & Maintenance	41,634	36,013
Residential Per Diem	1,151,117	1,208,259
Respite Per Diem	48,331	59,945
Supplies	51,257	57,932
Staff Medical	1,272	1,388
Telephone	67,244	86,452
Training and Education	61,654	57,730
Transportation	20,282	14,756
Travel	56,034	64,750
Vehicle Expenses	43,228	47,601
Water & Sewer	1,388	1,346
Total Operating Expenditures	<u>\$4,623,050</u>	<u>\$4,585,507</u>

The notes to the financial statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Ionia County Community Mental Health  
Orleans, Michigan

We have audited the financial statements of the Ionia County Community Mental Health as of and for the year ended September 30, 2004, and have issued our report thereon dated November 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Ionia County Community Mental Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Ionia County Community Mental Health's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated November 24, 2004.

This report is intended for the information of the audit committee, management, others within the organization, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 24, 2004



## MANAGEMENT LETTER

Board of Directors  
Ionia County Community Mental Health  
Ionia, Michigan

In planning and performing our audit of the financial statements for Ionia County Community Mental Health for the fiscal year ended September 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 24, 2004, on the financial statements of Ionia County Community Mental Health.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 24, 2004

### **Perform a Fraud Risk Assessment**

In light of the wave of notorious frauds involving large organizations in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small organizations. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in organizations with 10,000 or more employees.

Whereas the highly publicized frauds at large public organizations like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that Ionia County Community Mental Health (the Authority) perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.
- What assets of the Authority are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?

Ionia County Community Mental Health  
Management Letter

- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.
- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many organizations to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

Ionia County Community Mental Health  
Management Letter

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of work performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriations of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

When assessing the Company's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.